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Bank-Led Restructuring in Poland

An Empirical Look at the Bank Conciliation Process

Cheryl W. Gray
Arnold Holle

Poland's Enterprise and Bank Restructuring Program, adopted in 1993, halted the deterioriation of the country's commercial banks, but its bank-led workout process has done little to further the operational restructuring or privatization of enterprises. Continued work is needed to build strong banks that can impose effective corporate governance.

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Summary findings

Since 1992, Poland has been considered a model of commercial banking reform among transition economies. Its Enterprise and Bank Restructuring Program (EBRP), adopted by Parliament in 1993, tried to force state-owned commercial banks to build institutional capacity and to take concrete steps to resolve their problem loans — through workouts ("conciliation"), liquidation, loan sales, or payback of the problem loans. To find out if the workouts have lived up to their promise, Gray and Holle reviewed the process and initial outcomes of the bank-led conciliation process in a sample of 62 enterprises — part of a larger sample of 139 firms subject to the EBRP. A companion paper looks at experience with the other resolution paths (bankruptcy, state enterprise liquidation, court conciliation, payback, and sale of debt) under the EBRP.

The outcome of Poland's first experiment with bank-led restructuring is decidedly mixed. The EBRP forced banks to confront their problems, helped them build institutional capacity, and furthered the difficult task of weeding out and closing clearly unviable firms. These are important achievements in this early period of transition, and the Polish approach can serve in many ways as a model for other transition economies.

Despite these strengths, the data suggest that the bank-led conciliation process has had limited power to promote needed restructuring or privatization in firms. The agreements themselves were relatively unsophisticated and included few tangible requirements for operational or management change. The first two years of implementation saw a slowdown (over earlier years) in the rate of layoffs, a decline in average operating profitability, and very little real privatization. The main impact of conciliation appears to have been to reduce debt service and thereby give firms "breathing room." Weaker banks in particular tended to be more lenient, swapped more debt for equity, and had greater difficulty forecasting future enterprise performance.

The EBRP was a good start, but continued work is needed to build strong banks that can impose effective corporate governance on enterprises that need to restructure.

This paper — a product of the Finance and Private Sector Development Division, Policy Research Department — is part of a larger effort in the department to understand the process of transition in former socialist economies. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Bill Moore, room N9-038, telephone 202-473-8526, fax 202-522-1155, Internet address bmoore@worldbank.org. September 1996. (39 pages)

Bank-led Restructuring in Poland: An Empirical Look at the Bank Conciliation Process

by

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Bank-led Restructuring in Poland: An Empirical Look at the Bank Conciliation Process

Introduction

Poland is one of the fastest reforming economies in Cental and Eastern Europe. In 1990 the government implemented a strong macroeconomic reform program that liberalized most prices, devalued and made the zloty partially convertible, and eventually cut inflation. Although the government did not move as rapidly on privatization, Polish state enterprises were forced to react to declining subsidies,[1] new competition from imports, a collapse in traditional trading structures, and the government's stated commitment to eventual privatization. They reduced their workforces, shed unnecessary assets, worked harder to collect overdue receivables, and took other steps to try to stay in business in the new environment.[2]

Although state enterprises did begin the painful process of restructuring, many were heavily burdened by growing debt. Some debt was inherited from socialism, but for most firms the debt originated in the early days of reform. Firms looked to bank credit to address immediate liquidity problems—some managers believing that this reform effort would be short-lived like previous ones. While banks had some incentives to refuse their requests, in practice it was easier for them to provide further working capital and not force firms into liquidation. By late 1991 it was clear: For macroeconomic reforms to be sustainable, they needed to be accompanied by strong banking reforms that would sharply reduce the flow of bank credit to problem firms.

In early 1993, more than a year after the debt problem was clearly identified, the Polish government adopted perhaps the most far reaching programs of banking reform yet undertaken in any transition economy. The program, described in greater detail below, attacked the problem on many fronts. It included short-term policy directives to curtail indiscriminate lending and longer-term policies to change the fundamental incentives of banks. And policy was not the only focus. The program also addressed some issues of organization and skill-enhancement within selected departments in the banks, as well as legal processes for debt workouts.

One of the most innovative features of the reform program was a new process it introduced—the "bank conciliation" procedure—for bank-led workouts of problem firms. This process has received wide acclaim from participants and observers both within and outside Poland.[3] The primary purpose of this paper is to look carefully at how the bank conciliation process has functioned in practice by studying both its procedural aspects and its initial impact

[1] Polish government subsidies to enterprises shrank from more than 16 percent of GDP in 1986 to 3.3 percent in 1992 (World Bank, 1996).

[2] Pinto et al. (1993), Belka, Schaffer, Estrin and Singh (1996).

[3] Kawalec et al (1994), Belka (1994), van Wijnbergen (1995).

on enterprise restructuring in a representative sample of firms.[4] Although a few studies have summarized the outcomes of the process in some detail at the aggregate level,[5] none have yet looked in detail at firm-level data.

The Enterprise and Bank Restructuring Program (EBRP)

The Bad Debt Crisis in Poland

When Poland was a centrally-planned economy, credit was allocated to enterprises through the offices of the National Bank of Poland (NBP). The NBP was a so-called 'mono-bank', ie. exercising the functions of a central bank and of the whole commercial banking system at the same time. On February 1, 1989, nine state-owned commercial banks were formed out of branches of the NBP.[6] The loans to state-owned enterprises (SOEs) were allocated to the new state-owned commercial bank in their respective regions.[7] Most client relationships between these banks and SOEs, therefore, predate the major reforms of the 1990s. They were formed by this 1989 allocation and not from market-oriented processes of loan application, appraisal, disbursement and supervision. In 1991, the nine state-owned commercial banks were 'commercialized', that is, transformed into joint-stock companies fully owned by the state Treasury and controlled by the Ministry of Finance (MOF). Throughout the first phase of transformation, state-owned commercial banks continued to hold most SOE-debt and continued to lend to 'their' SOEs, particularly if these SOE's found themselves in trouble. As of September, 1992, approximately 67 percent of the US$7.5 billion that SOEs owed to the banking system was owed to these 9 banks.[8] In total, the nine banks accounted for about one-third of banking assets in Poland in 1992.[9]

The portfolios of most of the nine state-owned commercial banks deteriorated sharply during the recession of 1990 and 1991. By end 1991, 9 percent of the credit portfolio in the best bank was considered doubtful or lost, while in the worst the figure was as high as 60 percent[10].

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4 For an analysis of other debt resolution paths included in the reform program, including bankruptcy and state enterprise liquidation, see Gray and Holle (1996).

5 Pawlowic et. al. (1994) and (1995).

6 The nine, in order of the size of total assets as of end-1995, are: Powszechny Bank Gospodarczy SA (Lodz), Powszechny Bank Kredytowy SA (Warsaw), Bank Slaski SA (Katowice), Bank Przemyslowo-Handlowy SA (Krakow), Wielkopolski Bank Kredytowy SA (Poznan), Bank Gdanski SA (Gdansk), Bank Zachodni SA (Wroclaw), Pomorski Bank Kredytowy SA (Szczecin), Bank Depozytowo-Kredytowy SA (Lublin). Although four of them have been privatized, this paper will continue to refer to the nine as the state-owned commercial banks, as the problems they have faced were similar enough to consider them as a group.

7 This geographical allocation of portfolios into a relatively high number of quite small banks is considered by some to have been the major drawback of this first Polish banking reform.

8 The rest was owed to the foreign trade bank, the savings bank, the foreign currency deposit bank, the agricultural bank, a few smaller majority state-owned banks, and many small private and cooperative banks.

9 Polanski, 1995.

10 The data are from audits by major international accounting firms carried out in 1992.

NBP data (supported by the findings of western auditors) indicate that the number of problem debtors owing money to state-owned banks increased six-fold between 1989 and 1990, five-fold again in the next year, and twice again in 1992[11]. Roughly five out of eight SOEs were not servicing their debt properly as of end-1992,[12] and the emerging private sector probably had an even worse debt service record. For the entire banking system, bad debts were at least PZL40 trillion in 1992, ie. a little less than US$2 billion.[13] This was at least 20 percent of the total stock of bank debt of PZL204 trillion.

Bank debt was not the only debt in arrears. Overdue payments to the government were even higher—on the order of PZL50 trillion as of end-1992. And both bank and government debt were dwarfed by overdue inter-enterprise debt, which one source estimates to have been as high as PZL200 trillion in that year.[14]

The Government's Reponse

The Polish Ministry of Finance began to put pressure on the banks to arrest the deterioration of their situation. All nine banks were instructed in 1992 to establish work-out departments, staff them adequately, assign them those loans qualified as doubtful or loss,[15] and take action to recover these loans.[16] The heads of the new workout units were chosen by the government from outside and automatically obtained membership in the banks' management boards. The banks were advised in early 1992 to stop lending to these customers and were instructed later in 1992 to provision fully against all loans to them.[17] At the same time, preparations were made to implement a comprehensive restructuring program, addressing the problems at both the banks and the enterprises.

The Enterprise and Bank Restructuring Law, which put much of the EBRP into law, was adopted by the Parliament on February 3, 1993. Its requirements applied to seven of the nine commercial banks, although other banks could use the workout process it provided. Two of the nine banks—Wielkopolski Bank Kredytowy and Bank Slaski—were soon to be privatized and were not generally subject to the law's requirements. Its stated objective was to restructure and privatize, under the banks' command, a group of financially troubled enterprises, mostly state enterprises and majority state-owned joint-stock companies in the industrial sector. While new

[11] See NBP-Bulletins 1990 to 1992, quoted from Wyczanski (1993), p. 49.

[12] Wyczanski (1993).

[13] Groszek et al., p. 5.

[14] Groszek et al (1993), p. 6. This estimate of PZL200 trillion could be a bit high. *Total* debt to government and suppliers at end-1992 was PZL84 trillion and PZL231 trillion, respectively, according to government (GUS) data.

[15] See World Bank (1993), p. 23.

[16] It would appear from our data, however, that not much happened. See discussion on page 15.

[17] "Order No. 19", issued by the National Bank of Poland in November 1992, required banks to form reserves against all new exposure to these companies. Because this order proved so difficult for the banks to carry out quickly, the date by which full provisioning was required was eventually extended to March 31, 1994.

lending to these loss-makers had already been reduced in 1992, the EBRP intended to force banks into a more proactive corporate restructuring role. For the first time, the bankruptcy and liquidation system was to be fully put to the test for state-owned enterprises. The government did retain the option, however, of subsidizing a limited number of firms to avoid extreme social and political problems.[18]

A central feature of the EBRP was a one-time recapitalization of the banks, designed to be large enough to ensure adequate capital and make credible the "one-time-only" promise.[19] The amount of each bank's recapitalization was based on the value of its portfolio of bad debts at year-end 1991, as identified in audits conducted in 1992 by international accounting firms.[20] This was designed to avoid penalizing those banks that had already taken aggressive action to deal with their problems and to maintain incentives for managers to oversee other loans in the bank's portfolio.

The EBRP also included many other actions designed to change the incentives facing both banks and enterprises. It gave the full force of law to the existing government stance against new lending to nonperforming borrowers. To enforce this, and to increase transparency more generally, it required banks to undergo another portfolio evaluation by outside auditors. It also ordered the banks to set up workout departments and take actions to resolve those loans that had been classified "nonperforming" at year-end 1991. Five "resolution paths" were stipulated in the law. By the end of March, 1994 (later extended to end-April), each bank was required to take action so that for each firm with a loan in the base portfolio (as described below) either:

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18 The so-called "Intervention Fund", see World Bank (1993), p. 60.

19 The recapitalization of the seven state-owned commercial banks was implemented in September 1993 and totaled PZL11 trillion.

20 The first set of audits by international auditing firms was carried out for all nine banks in the summer of 1991. A respresentative sample of loans was analyzed and categorized into one of five credit ratings based on the debtor's financial standing and its repayment history:

Debtor's financial standing:	**Timeliness of repayments:**		
	good	**average**	**bad**
very good	pass	watch	substandard
good	watch	substandard	doubtful
average	substandard	doubtful	loss
below average	doubtful	loss	loss
bad	loss	loss	loss

The audits of Wielkopolski Bank Kredytowy (Poznan) and Bank Slaski (Katowice) showed significantly better health than those of the other seven, and these banks were slated for early privatization. In the aggregate the other seven were estimated to be insolvent. Loans that were "doubtful" or "loss" made up between 24 percent and 60 percent of the credit portfolio of these banks. The audits were repeated in mid-summer 1992 and (for the seven banks still in state hands) again in 1994.

The recapitalization was based on the status of the loan portfolio as of end-1991, as measured in the 1992 audit. It was implemented in late 1993 and provided the seven banks with PZL11 trillion (approximately US$520 million) in fifteen-year treasury bonds, enough to raise their capital adequacy to 12 percent of 1991 risk-weighted assets under BIS guidelines.

• a court or bank conciliation agreement had been concluded (see below);
• the debtor had been fully servicing its debt for at least the last three months;
• the debtor had been declared bankrupt;
• liquidation had been initiated under the Privatization Law (i.e. privatization is pending) or under the law on SOEs (ie. the enterprise is being shut down) ; or
• the debt had been sold on the fledgling secondary debt market.

These direct mandates were accompanied by other less direct changes in bank incentives. In 1992 employees in firms being privatized had been given the right to obtain shares in their firms upon privatization on favorable terms. The EBRP envisioned privatization of all of the state-owned commercial banks. This—combined with incentive compensation schemes by managers and explicit promises by the government to fire uncooperative managers—strengthened the incentives of managers at solvent banks to adopt prudent policies with respect both to the workout of the existing loan portfolio and to the creation of new loans. One bank was privatized in 1993, another in 1994, and two more in 1995.[21]

While the EBRP made efforts to deal with incentive problems, some issues were not addressed. The government did not force radical changes in the banks' senior management, although in a few cases top managers were changed. The reform program focused heavily on working out bad debts, but little on correcting deficient lending procedures. Large segments of the financial system initially escaped coverage, including the problem-plagued agricultural bank, housing bank, cooperative banks, and private banking sector. Taken together, however, the reforms contained in the EBRP were an impressive and forceful start.

The Bank Conciliation Procedure

The focus of this paper is on one of the "resolution paths" provided under the EBRP—the bank conciliation procedure. This is a workout process similar to formal workout processes in other countries, such as Chapter 11 in the U.S. bankruptcy code or the "bankruptcy" procedure in Hungary.[22] From a public policy perspective, these procedures are intended to promote reorganization of firms whose going concern value (post-reorganization) exceeds their liquidation value. Such firms, for example, may have assets (such as specialized machinery or unique trademarks) with little value in alternative settings. Through these processes a problem debtor tries to negotiate a reduction in immediate debt service requirements as a means to keep the firm alive. In return for the reduction in debt service, creditors may insist upon partial payments, upon equity stakes, or upon fundamental changes in the size or functioning of the firm in order to increase their chances of future repayment of the remaining debt.

[21] Wielkopolski Bank Kredytowy (Poznan) was privatized in 1993, Bank Slaski (Katowice) in early 1994, and BPH (Krakow) and Bank Gdanski (Gdansk) in 1995. To encourage privatization of the commercial banks, donor countries contributed roughly US$500 million to the Polish Bank Privatization Fund. As banks are privatized, the funds are released to the Polish government to cover payments on the recapitalization bonds. The extent of employee purchase of shares in these bank privatizations varied greatly.

[22] For an in depth analysis of the Hungarian bankruptcy process, see Gray, Schlorke, and Szanyi (1996).

Poland's bank conciliation procedure[23] was designed as a temporary process[24] to bypass some of the shortcomings of its existing judicial debt workout procedure, the law on "Arrangement Proceedings". The latter dates from 1934 (although significant amendments were made in 1990) and is extremely inflexible.[25] The bank conciliation procedure shifts power from the courts and the borrower to the banks. Banks are empowered to negotiate workout agreements with problem debtors and force them on dissenting creditors, provided creditors representing over 50 percent of the value of outstanding debt agree. A firm can apply for the procedure to its leading bank creditor, as long as that creditor holds 20 percent of that firm's debt (or 10 percent if the amount is at least 1 billion zloty). The parties then negotiate whether to pursue this route or opt for one of the other choices provided under the EBRP.

Borrowers and/or certain creditors acquire several potential advantages if they opt for restructuring under bank-led conciliation rather than judicial conciliation. First, the process is likely to be somewhat quicker and less cumbersome, because the courts are not involved except to hear an appeal against an agreement. Second, priority rules change. The state Treasury loses its superpriority. The social security office, secured creditors, and unpaid workers remain outside the agreement[26] and thereby retain their security (and thus their implicit priority). Third, the ability of small creditors to block agreements is more limited because of the lower voting majority required for an agreement to be approved. Fourth, responsibility for monitoring the restructuring program is explicitly delegated to the lead bank. If the lead bank does not terminate the agreement when the restructuring plan is violated, it becomes liable for any additional losses incurred by the other creditors. Fifth, the range of potential outcomes is broader under bank-led conciliation. For example, creditors may exchange debt for equity. The designers of the EBRP hoped that debt-equity swaps would be a central feature of many bank conciliation agreements, allowing debtors immediate relief from

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[23] For an in depth description, see Kawalec et. al. (1994) and van Wijnbergen (1995). For a preliminary analysis of results, see Kawalec, et. al. (1995), Belka (1994), and (in Polish) Pawlowicz et. al. (1994) and Pawlowicz et. al. (1995).

[24] The process was valid for three years. Conciliation agreements could be negotiated until March 18, 1996.

[25] For example, workouts under this law exclude secured creditors and government creditors (such as tax and social security offices), and thus in most cases the proceeding covers only trade creditors and bank creditors (to the extent they give up any security interests). In addition, the procedure requires only financial terms in the resulting agreement. Broader restructuring provisions, such as changes in employment, investment, or management, are not envisioned. Any agreement must be approved by a two-thirds majority (in terms of value of claims), or four-fifths for write-offs greater than 40 percent. Finally, only parties attending the proceedings are allowed to vote on the proposed agreement. It may be very difficult for a debtor with many creditors to assemble the required majority in one place for the vote.

[26] Secured creditors can choose to forego their security and become part of the process, as most indeed did—due to the virtual impossibility of collecting debts by foreclosing on collateral in Poland (see Baer and Gray, 1996). The social security office (ZUS) can and typically does negotiate a separate agreement with the problem debtor.

debt service while also facilitating their privatization[27] (once the banks themselves were privatized). Finally, if the conciliation agreement is declared void, any concessions are unwound, and the original debt claims of all creditors are reinstated. This gives the borrower and the lead bank strong incentives to develop a reasonable plan.

The "Base Portfolio" and Sample Selection

This paper examines the bank conciliation procedure in action by looking at how it operated in a sample of 62 firms. These 62 form part of a larger stratified sample of 139 firms drawn from the universe of firms with debts to the banks larger than PZL1 billion classified (based on the results of a 1992 audit) as doubtful or loss as of year-end 1991.[28] In the case of the seven banks that remained in state hands, this is the universe of firms and debts—the latter defined as the "base portfolio"—covered by the EBRP. For WBK and Bank Slaski, the two banks slated for early privatization, the names of firms or size of the bad loan portfolio were not available to the authors. For the seven state-owned commercial banks, the base portfolio included some 787 firms[29] with loans totalling about PZL16 trillion, or US$1.43 billion.

Sample Stratification and Selection

The overall sample of 139 firms includes 130 firms from the seven state-owned banks and 9 from the two privatized banks. The sample of 130 constituted about 17 percent of the total number of firms in the base portfolio of the state-owned banks. It was stratified to include some firms from each bank and at least 10 firms in each resolution path, with a special concentration on bank-led conciliation cases. Cooperatives, companies in the defense industry, and a few intensely political cases were excluded from the sample. To the extent possible, cases were drawn at random subject to these criteria.[30] Although firm participation in the survey was voluntary, the response rate was generally high, in part because many firms were asked directly by their banks to participate. This was particularly true in the bank conciliation cases, where 69 percent of the firms initially contacted by mail agreed to participate without further prodding. Of the 62 conciliation cases finally included, 53 had responded positively to the first random mailing. While the sample may be slightly biased toward firms in better financial condition, we believe that overall it is quite representative of the universe of firms that went through the bank

[27] The Ministry of Privatisation was required by the law to give consent to debt-equity swaps contained in conciliation agreements. In practice the process of obtaining such consent was very slow.

[28] This is largely but not entirely true. We now know that some loans were added to or deleted from this portfolio after the mid-1992 audits.

[29] The total number of firms in the base portfolio varies between 775 and 795 over time and depending on the source of data. Our data base contains 787 firms.

[30] The selection was random in six banks for which the authors had access to a complete list of their base portfolios. The other state-owned commercial bank and one privatized bank chose the sample. The other privatized bank did not cooperate in the study.

conciliation procedure.

Origins of Base Portfolio Loans

When were the loans made, and on what terms? As shown in Table 1, almost three quarters of the bad loans owed to the banks by the 139 firms in the sample—and almost four-fifths of loans from 1989 on—were working capital loans. Less than one-fifth of the loans were disbursed before the split-up of the National Bank of Poland in 1989. Almost two-thirds of the loans originated in 1990 and 1991, the two years of heavy lending before the adoption of banking reforms. Even though the banks were advised by the Ministry of Finance in early 1992 and required by the EBRP law in February 1993 to stop lending new principal to enterprises whose loans had been classified as "doubtful" or "loss", we found 22 cases (about one-eighth of all firms) where loans were made in 1992 or 1993.[31]

Table 1: Date of Credit Agreement and Type of Loan

	Branch of National Bank of Poland		**One of the nine commercial banks**					
	unknown[32]	**pre-1989**	**1989**	**1990**	**1991**	**1992**	**1993**	**Total**
Working capital loan	10	1	2	24	34	13	7	**91**
Investment loan	1	10	6	9	7	1	0	**34**
unclear	4	0	0	6	3	1	0	**14**
Total	**15**	**11**	**8**	**39**	**44**	**15**	**7**	**139**

Sample Distribution: Resolution Paths and Main Banks

The 787 firms in the base portfolio of the seven state-owned banks and the final sample of 139 firms are broken down by resolution path as shown in Table 2. We oversample for conciliation cases (in terms of number, but not in terms of amount of bank debt[33]) because we want to study that process in depth. We undersample for good clients, which are by far the largest EBRP group in terms of numbers. The percentage of cases in our sample from other resolution paths is similar to the overall percentage in the EBRP universe. With regard to bank coverage, cases in all resolution paths were taken from at least four banks to try to get as broad and representative a view as possible of the EBRP program in Poland. However, there was some concentration in certain banks that were more cooperative than others. The breakdown of the 139-firm sample by bank is shown in Table 3, and the breakdown of the 62 conciliation cases by

[31] In all but one case these were rollovers of existing working capital loans into "new" loans of equivalent amounts.

[32] In those cases the disbursement date was unknown to the firms and they were unable to find the credit agreements. It can be assumed that disbursement took place before 1989.

[33] If measured in size of bank debt, the bank conciliation sample is representative. Firms in the bank conciliation process held 46 percent of the bank debt in the base portfolio.

bank is shown in Table 4. Six banks are well-represented in the 139-firm sample; from 14 to 32 cases were drawn from each (representing from 12 to 46 percent of their total EBRP cases). Three banks are clearly underrepresented, with only 6, 2, and 1 cases, respectively.

Table 2: The 139-Firm Sample by Resolution Path

Resolution path:	Share of 787 enterprises in "base portfolio"	Number of enterprises in sample	Share of sample	Number of banks from which cases were taken
Repayment / good clients[34]	40%	22	16%	6
Bank Conciliation	23%	62	45%	8
Court Conciliation	2%	10	7%	4
Sale of Debt*	8%	10	7%	7
Liquidation	5%	12	9%	5
Bankruptcy	17%	23	17%	8
Other	5%	0	0%	

*Completed or attempted sale of debt

Tables 3 and 4 also categorize the 9 banks into two groups, based on their financial condition in 1993 when final decisions were taken on the resolution paths of most base loans and when conciliation agreements began to be negotiated. Of our sample of 62 conciliation cases, 26 (42 percent) involve weaker banks, and 36 (58 percent) involve stronger banks. Our assessment of financial condition is based on four indicators: (1) risk-weighted capital adequacy in 1993 (when the agreements were being negotiated), (2) change in risk-weighted capital adequacy 1991-93, (3) percentage of the 1991 loan portfolio rated doubtful or loss, (4) change in percentage of loan portfolio rated doubtful or loss 1991-93 (see Appendix 1). In our view, those banks which had adequate capital in 1993 or a relatively smaller 1991 bad loan portfolio to be worked out, or which had already shown an ability to improve either or both, were better placed to tackle the work-out effort successfully. The two privatized banks were automatically included in the "strong" category. They were the first banks to be privatized both because their situation in 1991 was clearly better than that of the other banks and because they were viewed to have better risk assessment and bad loan workout skills. The three banks classified as weak have dim prospects for privatization in the near future and will be consolidated with Pekao S.A., the former savings bank for hard currency, under a plan signed into law on July 16, 1996 and now being implemented by the Ministry of Finance.

[34] There are three different groups of debtors in this category: Some debtors had not been late on their payments before 1992, but their financial standing was weak. Another group were indeed bad debtors in 1991 but later paid their debt back in full. A third were bad debtors but later became current on their payments.

Table 3: Distribution of Base Portfolio (787) and Sample (139)

	Financial condition*	Number of enterprises in base portfolio	Number of enterprises surveyed	Share of surveyed enterprises in bank's base portfolio	Bank's share in total sample
Bank 1	weak	72	14	19%	10%
Bank 2	weak	69	32	46%	23%
Bank 3	weak/adequate	158	19	12%	14%
Bank 4	adequate/strong	111	32	29%	23%
Bank 5	strong	146	6	4%	4%
Bank 6	strong	N.A.	14	N.A.	10%
Bank 7	strong	100	2	2%	1%
Bank 8	strong	131	19	15%	14%
Bank 9	strong	N.A.	1	N.A.	1%
Total		787	139	17.7%	100%

*Banks 3 and 4 are in the middle in our consolidated measure of financial condition. Bank 4, the stronger of the two (with a much higher capital ratio and more improvement in its capital position and loan portfolio), has been classified with the strong banks for purposes of our analysis. Bank 3 (which had an extremely high level of bad debts in 1991) has been classified with the weak banks.

Table 4: Distribution of Bank Conciliation Cases (62) over Nine Banks

	Financial condition (see Table 3)	Number of bank conciliation agreements signed as of April 1994	Number of bank conciliation agreements in sample	Share of bank's total in sample	Bank's share in total sample
Bank 1	weak	41	7	17%	11%
Bank 2	weak	28	11	39%	18%
Bank 3	weak/adequate	20	8	40%	13%
Bank 4	adequate/strong	38	18	47%	29%
Bank 5	strong	13	5	38%	8%
Bank 6	strong	N.A.	8	N.A.	13%
Bank 7	strong	20	2	10%	3%
Bank 8	strong	20	3	15%	5%
Bank 9	strong	N.A.	0	0%	0%
Total		180	62	30%	100%

We would like to emphasize that the assessment of a bank as "strong" or "weak" does not necessarily reflect only (or even primarily) the quality of its management. The regional allocation of portfolios to banks made risk spreading particularly difficult for bank managers. The various banks inherited portfolios of differing qualities and clients with diverse futures, and they operated in regional economies with varying growth potentials. In the words of one bank manager: "A commercial bank with a substantial loan portfolio can only be as good as the financial standing of its clients." On the other hand, a deterioration in the loan portfolio and capital position from 1991 and 1993 may indeed indicate weakness in bank management.[35]

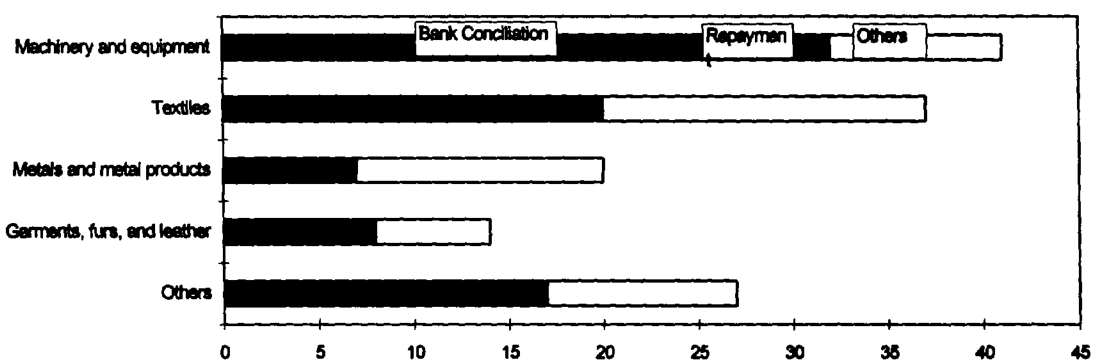
Characteristics of 62 Sample Firms

Which Firms Entered Bank Conciliation?

The EBRP provided numerous avenues through which banks and problem debtors could tackle their bad debt problems. In theory, the firms in the worst financial state—that is, those with debts exceeding assets and with liquidation value higher than value as a going concern—should have entered either bankruptcy or state enterprise liquidation. Other firms, in contrast, should have resolved their debt problems through means that would keep them alive—either paying back debts, becoming current on their debt servicing obligations, entering into one of the two workout processes (bank or court conciliation), or having their debt sold on the secondary market. For purposes of this paper, we concentrate primarily on the characteristics of firms that entered bank conciliation.

Sectoral distribution. Overall the decision for a firm to enter bank conciliation does not appear to have been heavily affected by the sector in which it operates. Figure 1 shows a breakdown of the 139-firm and 62-firm samples by sector. Although there is a significant concentration of both among 2 sectors—textiles and machinery and equipment, the distribution among sectors is roughly equivalent for both samples (with the exception of firms producing fabricated metal products, of which a lower percentage in our sample—and in the universe[36]—entered bank conciliation than other resolution paths).

Figure 1: Sample distribution among industrial sectors



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[35] The top managers of at least two of the strong banks, but none of the weak banks, were changed in 1991 or 1992.

[36] Pawlowicz (1994).

Amount of debt. Table 5 divides the base portfolio among resolution paths both by number of firms and by size of debt. While only 23 percent of firms entered bank conciliation, they accounted for 46 percent of the base portfolio. Enterprises in other resolution paths had far lower levels of bank debt on average (between PZL9 billion and PZL17 billion per firm, compared with PZL41 billion for firms in bank conciliation[37]).

Table 5: Share of Debt by Resolution Path for all 787 EBRP Firms

Resolution-path	Number of firms	Share of 787 firms (end-91)	Share of debt owed to main banks (end-91)	average debt owed to main bank (end-91) --in bln zl
Repayment / good clients	314	40%	30%	15.1
Bank Conciliation	180	23%	46%	41.1
Court Conciliation	15	2%	1%	13.8
Sale of Debt	62	8%	7%	16.8
Liquidation	36	5%	2%	9.4
Bankruptcy	137	17%	10%	12.1
Other	43	5%	4%	13.8

Profitability and employment. Figure 2 shows the average operating profits in 1991 and 1992 and the average number of employees[38] of the firms entering different resolution paths. These two variables are significant explanatory variables.[39] Firms entering bank conciliation were on average more profitable in 1991-92 (with average operating profits of 1 percent) than firms in other paths. Those entering liquidation or bankruptcy were the least profitable, with average operating profits of -47 and -45 percent, respectively. Firms entering bank conciliation also had on average more employees (almost 1300 per firm) than firms in other paths. Those entering bankruptcy had the fewest employees (other than the small number of firms whose debt was sold), but had still been quite large in 1991/92, with about 500 employees on average. In essence, the bank conciliation route captured firms that either had reasonable prospects for successful workout and/or were large enough to make a political impact. This result is encouraging and shows that the process may have roughly succeeded in separating viable from unviable firms.[40]

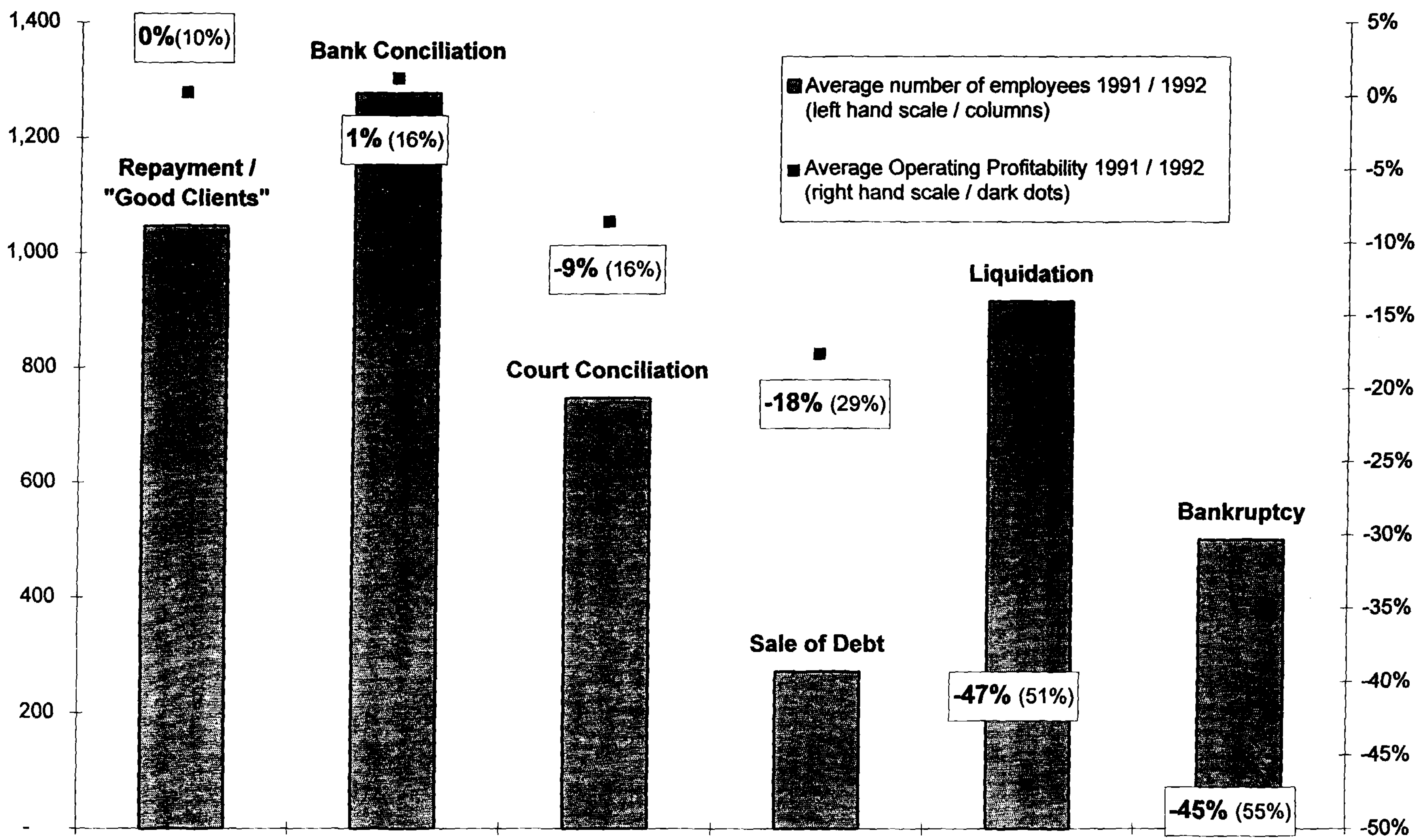
[37] Our sample intentionally omitted the biggest, most politicized cases.

[38] Size of debt is to some extent a proxy for size of the firm and it therefore correlated with number of employees.

[39] See Annex 2 for logistic regression results.

[40] This of course assumes some correlation between past profitability and future potential.

Figure 2: Average Operating Profitability and Number of Employees 1991 / 1992
(standard deviation in parentheses)



Reasons for Financial Distress of Firms in Bank Conciliation

The causes of financial distress in the 62 enterprises entering the conciliation process differed little from those in the other 77 enterprises in our sample. The most commonly cited cause of financial distress—named by almost 9 out of 10 firms in both groups as one of the 3 most important causes, and by almost one-half as *the* most important—was declining domestic consumption of the goods they produced. Indeed, total domestic consumption of the major product of the 62 firms entering conciliation declined on average by 27 percent between 1989 and 1991. The second most commonly cited cause, which affected about one-half of all firms, was an inability to collect receivables. A decline in exports to CMEA markets affected about one-third of the firms, and was cited as the most important cause by one-fifth. One-quarter of the firms blamed increased import competition. Imports of the respective major products of all 62 firms increased on average by 23 percent between 1989 and 1991, contributing to the decline in their average market share from 64 to 57 percent over the same period. Finally, 30 percent of the firms noted rising tax burdens or increasing prices of inputs as important. Our data indicate that input prices for these firms rose on average 15 percent more than the sales price of their major product.

These answers, and accompanying firm-level data that support them, indicate that many of the firms in our sample were severely affected by the general downturn in the Polish economy in 1990 and 1991, either suffering a decline in sales themselves or having customers unable to pay their bills. A smaller but still significant percentage were affected by structural changes specifically attritable to transition—including the reallignment of prices, increasing import competition, and declining CMEA exports. While it is often hard to differentiate these two factors—recession vs. transition-related structural change—in practice one might expect those firms citing structural reasons for their financial distress to have a lower likelihood of eventual recovery. No significant differences in reasons for financial distress appear to exist, however, between the firms in our sample that entered workout processes and those that were slated for closure.

Structure of Enterprise Debt

The change from 1991 to 1994 in the structure of outstanding debt reported on firms' balance sheets gives a rough snapshot of financial developments in our sample of firms.[41] Although the nominal value of total reported debt rose substantially from 1991 to 1993, its real value (after indexing for inflation) rose only slightly during that period, and it fell sharply in 1994 as a result of the conciliation process (Table 6). The balance sheet changed dramatially over the period. As a share of total assets, total reported debt rose on average from 54 percent in 1991 to 101 percent in 1993, before falling back to 79 percent in 1994 (Figure 3). Most of this

[41] Several words of caution are in order concerning this data, which were taken from the balance sheets of the surveyed firms. First, accrued interest on debt to suppliers is not typically included in enterprise accounts, while accrued interest on debt to government and ZUS is always included and that on debt to banks is sometimes included. Second, the 1994 figures overstate debt burdens, because many write-offs (particularly of government debt) were not reflected immediately in firms' balance sheets.

increase reflected a decline in the real value of assets, due both to shedding of assets and to inadequate indexing for inflation.[42] With regard to the structure of reported debt, bank debt and payables to suppliers fell significantly both in real terms and as a share of total debt (Table 7), while government debt skyrocketed by both measures. Taxes and social insurance payables to the government more than doubled in real terms from 1991 to 1993. As a share of total assets, they increased from 7 percent in 1991 to 31 percent in 1993. In thirteen cases the government (the tax office and ZUS) replaced banks or suppliers as the largest creditor (Table 8). At least 70 percent of these payables consisted of overdue tax and social insurance arrears.[43] It is interesting to note that debt to workers (that is, wage arrears) were negligible throughout the period, in contrast to the situation in distressed firms in the former Soviet Union.

Table 6: Average Debt per Firm to Various Creditors*
(billion 1991 PZL, indexed for inflation)**

Debt owed to:	1991	1992	1993	1994 (post-conciliation)
Banks	42.5	34.7	29.9	13.2
Suppliers	40.6	35.8	36.5	22.9
Tax and ZUS	15.8	24.8	35.5	30.9
Other payables* **	9.9	10.1	12.7	10.6
Other liabilities*** **	9.1	8.2	7.7	16.4
TOTAL	118.0	114.1	123.4	96.1

* N=62

** Using the producer price index.

*** Includes in some cases accrued interest on overdue debt; payables to workers are small throughout the period.

**** Includes workers' capital, obligations to housing and other funds, and some debt write-offs (particularly of government debt) in conciliation agreements that remained on the balance sheet to be slowly written-off as the agreements were implemented.

42 Revaluation of assets during this period was allowed several times, with the extent of revaluation being largely at the discretion of firm management.

43 We do not know the exact breakdown between current and overdue payables for all categories of taxes for all years. Of debts to the tax office and the social insurance agency at year-end 1993, 28 percent of payables were current and 72 percent were overdue (43 percent for more than one year). Because payments to ZUS were in general more likely to be made than payments to other tax agencies, an estimate of three-quarters of tax liabilities in arrears appears reasonable.

Figure 3 Debt as a Share of Total Assets

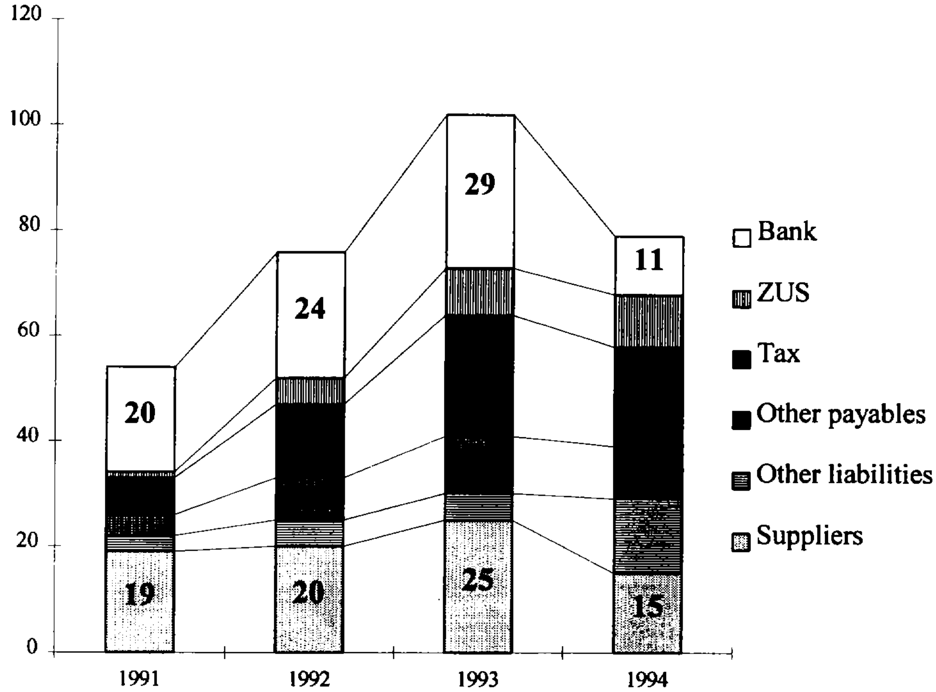


Table 7: Debt to various creditor groups as a share of total debt*

	1989	1991	1992	1993	1994 (post conciliation)
Banks	26%	38%	31%	27%	15%
Suppliers	38%	35%	28%	26%	22%
Tax	21%	12%	19%	22%	23%
ZUS	3%	2%	6%	8%	10%
Other payables	12%	7%	10%	11%	12%
Other liabilities	N.A.	6%	6%	6%	16%
TOTAL	100%	100%	100%	100%	100%

*N=48 in 1989, N=62 in other years; Note that these proportions differ from those implicit in Table 6, because in this calculation each firm is weighted equally.

Table 8: Identity of Largest Creditor (number of cases)

	1991	1993
Banks	31	21
Suppliers	27	18
Tax	3	15
ZUS	0	1
Other	1	7

These trends support the findings of other studies[44] that indicate that suppliers are among the first creditors to begin imposing hard budget constraints on firms in transition. As the suppliers themselves are squeezed by market pressures and cutoffs in subsidies, they begin to require payment in cash before they ship goods. State-owned banks also tighten their lending when subject to macroeconomic and market discipline. The biggest remaining source of "softness" in firms' budget constraints during the early stages of reform is likely to be the government, which has great technical and political difficulty collecting tax and social insurance payments and thereby forcing financial discipline for problem firms.[45]

The Conciliation Process in Action

Initiating Debt Collection

The EBRP was designed in large part to force large creditors to bear down on bad debtors and attempt to collect their debts. From our sample it is clear that creditors were indeed relatively passive in the early years of reform, and that the EBRP was a catalyst for action.

Table 9 shows the average number of days between events (for those events completed by mid-1995) for our sample of 62 firms in the bank conciliation process. The base portfolio was intended to include loans classified as doubtful or loss as of December 1991. Thus, we start our timetable on September 30, 1991, approximately the date, on average, that banks should have realized that a given loan was in trouble.

The first step noted on the timetable is the initiation of debt collection action. The EBRP was clearly an important catalyst for the banks. Only 24 of the 62 firms in our sample were subject to any debt collection whatsoever before they applied for bank conciliation. Even for those 24 firms, an average of about 15 months elapsed between when the loan should have been recognized as bad and when the first debt collection action was taken. In only eleven cases was action taken before the passage of the law. The conciliation procedure began on average ten months after passage of the law and a full 800 days (over two years) after banks should have known that the loans were in trouble.

What triggered the initiation of bank conciliation proceedings? Table 10 shows the answers that our sample enterprises gave to this question. In very few cases was it aggressive action by creditors to collect their money that triggered the specific timing of conciliation discussions, although some form of creditor pressure may have figured prominently in up to one-half of our cases. In the other half it appears that enterprises sought bank conciliation agreements "to obtain additional working capital" or "to obtain a debt write-off" (the major subcategory of "other"). Enterprises would not normally need additional working capital if their operating profitability was satisfactory. Therefore, it is safe to conclude that conciliation—from the

[44] World Bank (1996).

[45] The decision which creditor to pay can be an important one in financially distressed companies, sometimes handled exclusively by the Chief Executive. A number of managers in the survey expressed personal gratitude to the head of the local tax office, whithout whose help the enterprise would not have survived.

enterprise's viewpoint—was triggered more often by the desire of managers to continue covering weak performance as by decisive actions by creditors to collect the money they were owed.

Table 9: Timetable for the Bank Conciliation Process (as of mid-1995)

	Average number of days	Coefficient of Variance	Maximum	Minimum	Number of Cases
Sept. 30, 1991 until date of first debt collection action	679 (*9 Aug. 93*)	34.6	1129 (*2 Nov. 94*)	-117 (*5 Jun. 91*)	62
Sept. 30, 1991 until date of first debt collection action (if another occured before beginning of BPU procedure)	475 (*17 Jan. 93*)	50.9	870 (*6 Feb. 94*)	-117	24
Sept. 30, 1991 until initiation of bank conciliation proceedings	800 (*8 Dec. 93*)	10.6	1129 (*2 Nov. 94*)	634 (*25 Jun. 93*)	61
Initiation of conciliation proceedings to final vote on draft agreement	118 (*5 Apr. 94*)	60.2	389	8	61
For state-owned banks: In case final vote took place before April 30, 1994—how many days?	58 (*3 Mar. 94*)	67.2	187 (*25 Oct. 93*)	18	46
For state-owned banks: In case final vote took place after April 30, 1994—how many days?	118 (*26 Aug. 94*)	73.6	235 (*21 Dec. 94*)	5	8
In case of no appeal: final vote to date conciliation agreement took effect	49 (*21 May 94*)[46]	54.4	143	0	36
In case of appeal: final vote to date conciliation agreement took effect	124 (*7 Aug. 94*)[46]	83.7	431	0	23
Overall length of bank conciliation procedure: initiation of conciliation proceedings to date conciliation agreement took effect	198	49.5	529	45	59
In case creditors' council already met: Date of final vote to first meeting of creditor's council	119	48.5	324	15	40
In case of a debt-equity swap: Date conciliation agreement took effect to issuance of shares	298	54.9	731	94	14 (by mid-95)

[46] The illustrative average dates presented here rest on the bold assumption, accepted here for the sake of illustration, that the average date for the final vote on agreements later appealed is the same as the average date for the final vote on agreements not appealed.

Table 10: What Triggered Bank Conciliation?
(in percent of firms)

	Most important reason	***One of three most important reasons***
Attempts or threats by creditors to foreclose on collateral	16	29
Inability of debtor to obtain additional working capital	36	82
Pressure by founding organ to deal with creditors	0	13
Threat by creditor to sell their debt	21	52
Other[47]	27	47

Forming Creditor Groups

The rules for bank conciliation allowed creditors to be divided into different groups for purposes of negotiating the conditions in the conciliation agreement. Creditors in the same group would receive the same treatment, and creditors in groups not including the main bank (generally small creditors) could not receive worse treatment than creditors in the group with the main bank (generally large creditors). In this way, creditors—particularly small creditors—were protected from being disadvantaged by other creditors—particularly the bank leading the negotiations. Another protection was included in the rules to prevent the lead bank from protecting its interests at the expense of other creditors: Each bank was charged with monitoring the implementation of the conciliation agreements it led, and was responsible to other creditors if agreements' conditions were not fulfilled by the debtors.

Because of these nondiscrimination requirements, it was clearly in the interests of the main bank to differentiate as little as possible among creditors, that is, to include as many creditors as possible in the same group. However, to obtain a 50 percent voting majority and to reduce the likelihood of appeals brought by disgruntled creditors, it might still be necessary to provide better treatment for some creditors—particularly small ones whose full payback would not "cost" too much for other creditors. Indeed, analysis of our sample confirms that these incentives were prominent. In 53 of the 62 cases different creditor groups were formed, while in nine cases[48] all creditors were grouped together. Where different groups were formed, the second group (that is, the one not including the lead bank) contained only creditors holding small

[47] Because "other" was such a high percentage, we analysed these answers in detail. Half of the answers listed under "other" point out that the BPU procedure gave a possibility of obtaining a reduction in debt, another group of answers indicate increased pressure from creditors (37 percent of "other"), while the rest is difficult to categorize.

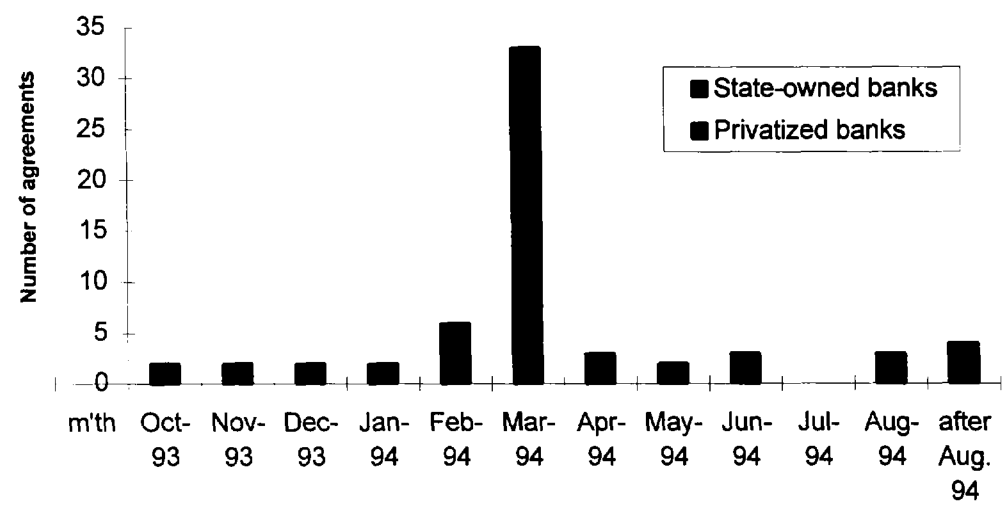
[48] Of the nine cases with only one creditor group, eight were from the stronger banks.

claims.[49] The first group tended to have quite a large number of creditors (on average 57) and held the overwhelming majority (on average 87 percent) of the debt subject to conciliation. The small creditors, even though there were many (on average 95) held relatively little debt and thus could be given better treatment without severely damaging the larger creditors.

Negotiating and Monitoring Agreements

Once begun, the conciliation process could last as long as a year or could be completed within the course of a week. On average it took four months, although in many cases the agreement had in effect been negotiated before the process officially began.[50] In the case of the seven state-owned banks, fifteen percent of the agreements in our sample were concluded after the deadline of April 30, 1994 imposed by the Ministry of Finance.[51] Nevertheless, the existence of a deadline was very important as a spur to banks to finish the process (Figure 4).

Figure 4: Timing of Conclusion of Conciliation Agreements



[49] In 51 of the 53 cases, the groups were distinguished by the size of debt that the creditor was holding. In 46 of these two groups were formed, large and small creditors, the cut-off between the two being anywhere between PZL5 million (US$238) and PZL5 billion (US$238,000). The average cut off between the two groups in our sample was roughly PZL255 mln (US$12,140). In the 5 cases where three groups were formed, the average cut-off between "medium" and "small" creditors was also at that mark. In the other 2 cases, the groups were distinguished by type of creditors, which is in fact highly correlated with size of debt (because trade creditors tend to have smaller debt claims than banks).

[50] There does not seem to be a clear correlation between length of the process and the size or number of creditors of the firm. The process does appear to have gone somewhat faster for firms with higher debt burdens (debt/asset ratios), perhaps because more attention was paid to those cases.

[51] Initially, the deadline was March 31, 1994, but was subsequently moved by one month to April 30, 1994.

Even though smaller creditors were legally entitled to equal or better treatment, they tended to be less inclined to approve conciliation agreements. The majority of large creditors favored the agreement in 85 percent of cases,[52] while the majority of small creditors favored the agreement in only 38 percent of cases (even though they received much more preferable treatment).

The EBRP law provided that a conciliation agreement should take effect within 30 days of the its signing. In practice agreements that were not appealed took effect on average 49 days after the final vote.[53] About 40 percent of the agreements in our sample were appealed, over four-fifths of the time by a supplier. But not a single conciliation agreement was nullified or modified by a court. Twenty-three appeals were rejected, and one was still pending as of mid-1995. If there was an appeal, the duration of the overall procedure lengthened considerably, but even agreements that were appealed came into effect on average three months after signing.

A creditors' council was formed in most cases (51 out of 62) to monitor the agreements, but its importance[54] appears to have been small. In eleven cases, the creditors' council had not even met once when the company was interviewed in the summer of 1995, although the agreement had on average been signed for more than a year.[55] In the other cases, the period from the date the conciliation agreement took effect until the creditors' council first met was on average about 4 months, and in some cases up to 11 months.

Rather than a group of creditors, our data indicate that the lead bank was generally in control of the bank conciliation process (see Figure 5). The top management of the creditor was also actively involved. Nonmanagerial employees in the firm were much less involved, despite the traditional role of labor in management of Poland's state-owned firms. Creditors other than the lead bank were generally passive, although among these other creditors the tax and social insurance authorities appear to be somewhat more involved than trade creditors or other bank creditors. Although this general pattern is not uncommon in workout processes in advanced market economies, the passivity of creditors is more marked in transition settings. Such passivity potentially compromises the effectiveness and fairness of workout processes.

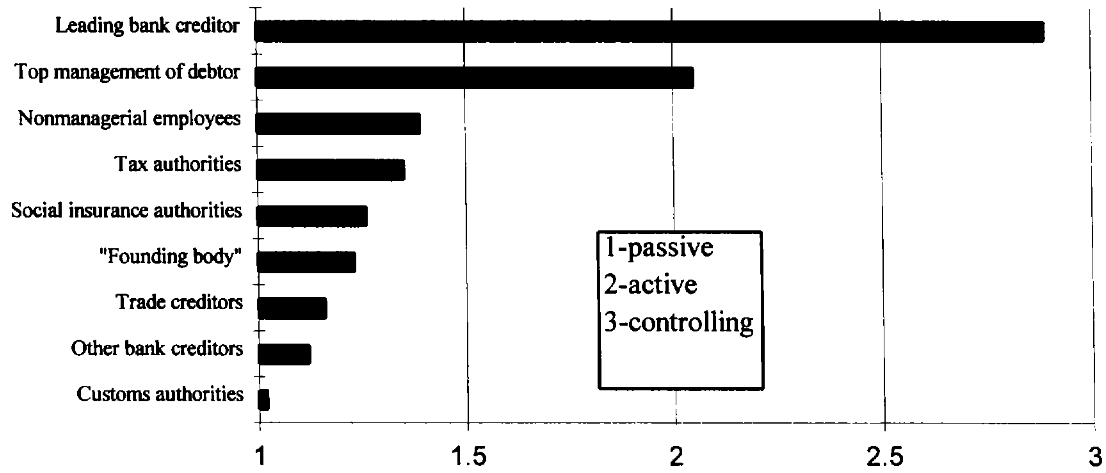
52 In all but one of the cases approved by large creditors, their vote alone was sufficient to carry the total vote over the required 50 percent threshold.

53 A "waiting" period of one-month was provided in the law to allow time for appeals. The 49 days in practice reflected delays by the Ministry of Privatisation, which had to approve all agreements.

54 The functions of the creditor council provided for by the EBRP law and those of a creditor council in western economies are somewhat different. In the EBRP the creditor council serves primarily to monitor the bank conciliation agreement once it is concluded.

55 Average 452 days, maximum 613 days, minimum 291 days, standard deviation 91—quite a flat distribution.

Figure 5: Average Involvement of Various Creditor Groups



Outcomes of Bank Conciliation to Date

The most important question surrounding the bank conciliation process, and the EBRP more generally, is its impact on enterprise restructuring. Did the process allow viable firms to survive that might otherwise be forced to close? Did it lead firms to improve their efficiency? Did it result in changes in ownership or management? While our data do not provide answers to all of these questions—indeed, perhaps insufficient time has passed to allow definitive answers to be drawn—it offers interesting clues on the likely impact of the process.

Financial Restructuring

The Law of February 3, 1993, allowed debtors and creditors to use a wide variety of techniques to adjust debt obligations and reduce debt service burdens. They could write off (in full or in part) principal and/or accumulated interest, extend due dates or payment periods, reduce the interest rate charged on outstanding loans, increase the collateral attached to loans, or swap debt for equity. Finally, banks were allowed to extend additional credit as part of the restructuring agreement.

Our survey indicates that the two universal provisions in conciliation agreements were debt write-offs and extensions in the payment period (Table 11 and Annex 3). It also shows that the second category of creditors, typically small creditors, received much more favorable treatment than the first category. For the 53 cases with two classes of creditors, large creditors wrote off 54 percent of the debt owed to them on average, while small creditors wrote off only four percent. For the nine cases with only one class of creditor, the average write-off was 66 percent. The maximum write-off for large creditors was 89 percent. In no case was there no write-off of debt.

Table 11: Financial Conditions in Conciliation Agreements

Condition	Weak banks (N = 26)		Strong banks (N = 36)		All banks (N = 62)	
	# of cases	% of debt in conciliation in those cases	# of cases	% of debt in conciliation in those cases	# of cases	% of debt in conciliation in those cases
Write-off						
-large creditors	25	53%	28	55%	53	54%
-small creditors	25	5%	28	4%	53	4%
-one category	1	80%	8	65%	9	66%
Immediate partial repayment						
-large creditors	0	0	0	0	0	0
-small creditors	2	1%	4	.5%	6	.6%
-one category	0	0	0	0	0	0
Debt-equity swap						
-large creditors	18	30%	6	36%	24	32%
-small creditors	0	0	0	0	0	0
-one category	0	0	1	37%	1	37%
New equity	1	.1%	1	11%	2	6%
New bank credit	9	9%	10	10%	19	10%

Banks had consistently been capitalizing interest not paid in the past, while other creditors had not. Because equal treatment was by law required for all creditors, there tended to be greater percentage write-offs of accrued interest than of principal.[56] Other than this, our analysis could find *no* significant relationships between the size of the write-off given to individual firms and any other variables—whether the extent of firm indebtedness, the size of the firm, the profitability of the firm, the date negotiations on the agreement began or ended, or the identity of the bank.

A renegotiation of the maturity of the remaining loans was of course necessary in virtually all cases. The new maturity structures were also more favorable for small creditors. On average the first payment was due to them 107 days after the agreement took effect, and the last payment was due 241 days later. In contrast, the first payment was not due to large creditors until 205 days after the agreement took effect, and the last payment was not due until 894 days later. In other words, small creditors could on average expect to have their loans entirely repaid within a year, while on average large creditors had to wait until early 1995 for their first

[56] Approximately 44 percent of the total debt subject to conciliation agreements was accrued interest.

payment, and can expect to see the final payment during the summer of 1997.[57] Clearly the large creditors, led by the main bank, took the brunt of the financial burden for these agreements. While nondiscrimination against small creditors was written into the design of the process, this extent of preference to small creditors was perhaps not anticipated.

Other financial restructuring tools were less common. Immediate partial payback of outstanding debt was required in only 6 cases, and even in these cases the amount was miniscule—on average less than 1 percent of outstanding claims. In only 2 cases did creditors move to increase their collateral, which may be in part explained by the weakness of collateral systems in Poland.[58] Finally, our survey saw no evidence of any reduction in interest rates. Rather than adjust interest rates on outstanding balances, the agreements essentially pooled all remaining principal and accrued interest obligations (after write-offs), and assigned schedules for their repayment—without additional interest.

The design of the EBRP was to a large extent predicated on the hope that debt would be swapped for equity on a large scale, and thus the process would result in a change in ownership (and privatization once the banks were themselves privatized) as well as furthering enterprise restructuring. In practice, debt-equity swaps occurred in 25 of our 62 cases and covered on average 33 percent of the debt in those cases. The swaps involved almost exclusively large creditors; small creditors took equity in only one case--where all creditors were classified in only one group.

It is interesting to note that the weakest banks (as defined earlier for Table 3) were the most active in swapping debt for equity, while they more or less matched the stronger banks in the amount of loans they agreed to write off (Table 11). Other research has indicated that Polish banks are in general not eager to own equity because of the extra risks and monitoring burdens associated with it.[59] Our sample provides additional evidence that the stronger banks were indeed more cautious. The fact that weaker banks were the primary ones to use this restructuring tool may reflect the fact that they had worse clients and fewer options. But even so it does not augur particularly well for the central role originally envisioned for debt-equity swaps in the workout process.

Because debt-equity swaps were limited, and because the provision of the law regarding the forced debt-equity conversion did not work,[60] the privatization goals of the program were not

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[57] Under the law, banks are responsible for debtors' fulfillment of the terms of conciliation agreements after the agreement is in force for three years. This provision led in many cases to an artificial shortening of pay-back periods.

[58] For further discussion of Poland's collateral system, see Baer and Gray (1996).

[59] Dittus and Prowse (1996).

[60] To facilitate privatization, the law allowed any creditor with at least 30 percent of the debt of a firm in default to apply to the Ministry of Privatisation for a debt-equity swap (preceded by compulsory commercialization), even outside the bank conciliation procedure. The swap was supposed to be approved by the Ministry within 30 days. That provision of the law was not used in practice, mainly because it was blocked by the Ministry of Privatisation.

met. The Polish government originally set minimum targets whereby conciliation agreements would result in a reduction in government ownership to below 50 percent of shares in at least 30 percent of all cases.[61] The average expected post-swap pattern of enterprise ownership for the 25 cases with debt-equity swaps is shown in Table 12. The government retains on average a 47 percent stake; it keeps an absolute majority in twelve cases. When added to the 37 cases that did not feature a debt-equity swap, the government maintains majority ownership in 49 cases, or 79 percent of the 62 firms in the sample. The main bank obtains a majority stake in only one case, and in twelve cases no one party obtains a majority, although banks, suppliers, managers and employees together have a majority. At best one could argue that the conciliation process will eventually result in privatization of 13 of the 62 firms in our sample, or 21 percent, once the banks and and state-owned suppliers are themselves privatized.

Table 12: Expected ownership structure in 25 cases with debt-equity swaps

	Average share of debt, end-1993	Average post-swap equity stake	Maximum post-swap equity stake
Government	23%	47%	100%
Bank(s)	29%	23%	58%
Suppliers	26%	20%	55%
Managers / Employees	1%	6%	37%
Other	21%	4%	36%

Finally, new loans were—perhaps not surprisingly—relatively uncommon. The two privatized banks did not give new money in any of the cases in our sample. The state-owned banks gave new loans in 19 cases and new equity in two cases. The new loans equalled on average 10 percent of the outstanding debt covered by the conciliation process.

It is interesting to note that ZUS, although not a party to these agreements, did negotiate separate agreements with 50 of the 62 firms in our sample. The debt covered by these agreements with ZUS was on average one-fifth as large as the debt covered by the conciliation agreements. On average the ZUS agreement was concluded 24 days after the conciliation agreement was signed. This average masks wide variability, with some ZUS agreements being finalized more than one year either before or after the conciliation agreement. In contrast to other creditors, ZUS did not agree to *any* write-offs in 1994, but only to reschedulings of debt. Renegotiated payback periods were quite tight, beginning on average 2 1/2 months after signing and ending on average 23 months later. Some immediate repayment was required in 13 of the 50 cases, but in all 13 cases the amount was very small (generally less than one percent of the debt).

Commercialization.

According to the Law of February 3, 1993, application for a bank conciliation procedure

[61] World Bank (1993) and annex 2: "Letter of Development Policy" from the Polish Government

by a state-owned enterprise was equivalent to consent by its governing bodies[62] to be commercialized, i.e. transformed into a joint-stock company, 100 percent owned by the Treasury and represented by the Ministry of Privatisation.[63] The donor-community believed that "...[The] program ... seeks the commercialization ... of virtually all troubled SOEs"[64] because the "Government [of Poland] has ...agreed to minimum targets whereby conciliation agreements would result, in at least ...70 percent of the cases in ... commercialization"[65]. If our sample is representative, this objective was fulfilled (see Table 13), assuming one includes those companies commercialized before the law was passed in 1993 or long after all agreements took effect (i.e. in 1995 and 1996) as "commercialized as a result of the program".

Table 13: Year of Commercialization*

1991	1992	1993	1994	1995	1996	Total	Not transformed
3	10	2	23	7	1	46 (75%)	15 (25%)

*61 enterprises; one firm was already a limited liability company.

Commercialization occurred in 46 of our 62 cases. Fifteen companies were transformed before signing a bank conciliation agreement (including those already commercialized before conciliation began); 31 companies were transformed after going through the process. On average, these 31 enterprises were transformed into 100 percent state-owned joint stock companies 200 days after the final vote on the agreement, despite the stipulation in the law that transformation has to occur within 30 days.[66] No transformation had occured in 15 firms by the summer of 1996 (including three cases with debt-equity swaps). It is unclear why some firms in bank conciliation escaped commercialization given the automatic consent implied by the application process.

Restructuring Plans

Firms entering into bank conciliation were supposed to present restructuring plans, and of our 62 sample firms, 52 presented plans that were still accessible when the survey was

62 These included the management and the worker's council.

63 At year-end 1991, 54 of 62 firms that would later enter bank conciliation in our sample were state enterprises. Four were already commercialized joint stock companies, two were fully owned by another state enterprise, and two were partially privatized (with a majority stake still in state hands).

64 World Bank (1993), p. 30

65 World Bank (1993), p. 31 and annex 2: "Letter of Development Policy" from the Polish Government, p. 60. The latter mentions 75 percent as a goal.

66 The standard deviation was 78, indicating quite a wide distribution of answers. The quickest registration in the sample occured 36 days after the final vote, while one company was converted only after 387 days—a year more than required by the law.

undertaken.[67] But the contents of many of these plans were vague or unrealistic, based more on hopes than on actual analysis. On the financial side, most of the plans were optimistic. Forty-eight forecast profits in 1994 and 51 in 1995. The plans generally contained little detail on operational restructuring, with half or fewer committing to specific changes such as sales of assets (ten firms) or changes in staffing levels (28 firms). Five plans included sales of parts of the firm as a going concern. The plans that projected employment levels expected the average number of employees to *grow*. No management changes were envisaged in any restructuring plan.

The conclusion that the plans were more fantasy than fact is evidenced by a comparison of actual performance with planned performance. Table 14 shows actual and projected operating profits—that is, operating earnings before interest and taxes (EBIT)[68] as a share of operating revenues—for 1994 and 1995 for the 40 cases in which detailed financial plans were presented for both years. Because in almost all cases 1994 was the first year of implementation, one would expect the plans to be reasonably accurate. However, the plans projected an average operating profit of 9.0 percent, while the firms realized an average operating profit of less than 1 percent.[69] When divided between strong and weak banks, the average difference between plan and actual was 4.4 percent for the former, compared with 13.2 percent for the latter.[70] Differences between plan and actual were even larger in 1995, with the divergences being again more marked in the case of weaker banks.

Table 14: Actual vs. Planned Operating Profits, 1994 (40 firms)
(in percent, standard deviation in parenthesis)

	Average actual operating profit		Average planned operating profit		Average difference (planned minus actual)	
	1994	**1995**	**1994**	**1995**	**1994**	**1995**
All banks (40 cases)	0.4 *(11)*	-3.1 *(23)*	9.0 *(9)*	12.0 *(8)*	**8.8** *(13)*	**15.0** *(25)*
Strong banks (20 cases)	3.8 *(9)*	0.3 *(10)*	8.0 *(10)*	11.5 *(8)*	**4.4** *(12)*	**11.0** *(11)*
Weak banks (20 cases)	-3.0 *(12)*	-6.4 *(31)*	10.2 *(8)*	12.0 *(9)*	**13.2** *(13)*	**18.0** *(34)*

67 Sixteen percent of the firms surveyed were not able to find a copy of any restructuring plan. Such a plan was required under the law.

68 In Polish terminology, operating profits as we use them here equal "operating revenues" plus "revenues from the sale of products not produced inside the company" minus "costs of products produced inside the company and sold during the period" minus "costs of purchase of products not produced inside the company but sold during the period". There is no addition of income from stocks nor deduction for interest payments.

69 If one adds depreciation back in, operating profit becomes operating cash flow. The average difference between actual and projected operating cash flow was also 9 percent.

70 Statistical analysis confirmed the lack of any significant correllation between planned and actual operating profits as well as the fact that the difference between these two figures was significantly higher for weak banks than for strong banks. (See Annex 4 for scattergram of individual answers).

Operating Performance

With regard to actual performance, the financial operating performance of most of the 62 firms in our sample has deteriorated rather than improved since the conciliation agreements were concluded. Average operating profit for the 57 firms in our sample with data throughout the period was 4 percent in 1991. It fell to -3.5 percent in 1992, rose back to 0 percent in 1993, fell slightly to -1 percent in 1994, and fell further to -3 percent in 1995. Operating profits in market economies are generally on the order of 5 to 13 percent. The number of firms in our sample with operating profits over 5 percent fell consistently over the period (Table 15). This operating performance is not impressive, especially given the robust growth in the Polish economy of over six percent per year in both 1994 and 1995.

Before-tax ("gross") and after-tax ("net") profit figures reported by firms in 1994 were much higher than these figures for operating profit and seem to show major improvements in financial performance. But all suffer from a major distortion: the firms booked debt write-offs as profits. This raised 1994 gross and net profit figures (over 1993 amounts) by 40 to 50 percent of total revenue on average, as shown in Figure 6, and put them at over 10 percentage points above operating profits.

Figure 6: Profit Measures for Firms in Bank Conciliation (57 firms)

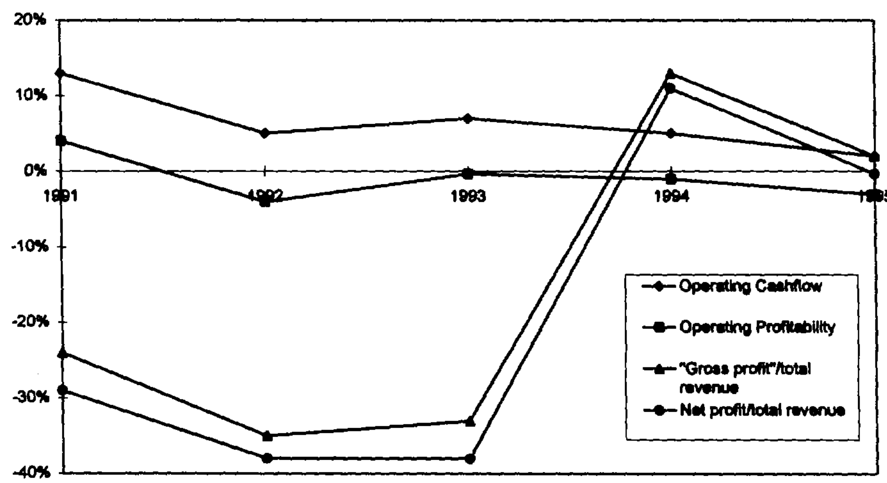


Table 15: Breakdown of 57 Firms by Operating Profitability, 1991-1995

-number of firms

	1991	1992	1993	1994	1995
Greater than 5%	32	20	22	16	14
0 to 5%	10	7	11	16	16
-5% to 0	5	7	5	10	8
Less than 5%	10	23	19	15	19
Total	57	57	57	57	57

The fact that operating profit hardly changed in 1994 and 1995 is explained by the behavior of operating revenues (Figure 7) and operating costs (Figure 8). These figures show average changes in the level and structure of revenues and costs in 54 firms (i.e. those with adequate data) from 1991 to 1995, using 1991 as an index and giving each firm an equal weight. Both revenues and costs rose slightly from 1993 to 1994 and much more from 1994 to 1995. However, the patterns of change give little evidence of significant restructuring in 1994. On the revenue side, domestic sales increased significantly, as would be expected given the strong recovery in the Polish economy in 1994 and 1995, but exports increased only slightly. On the cost side, costs for energy and materials rose in both 1994 and 1995—probably in part a reflection of increases in regulated energy prices. Other costs stayed roughly level, with a slight fall in depreciation expense being compensated by a slight rise in other costs.

Figure 7: Operating Revenue (in real terms, 54 firms)

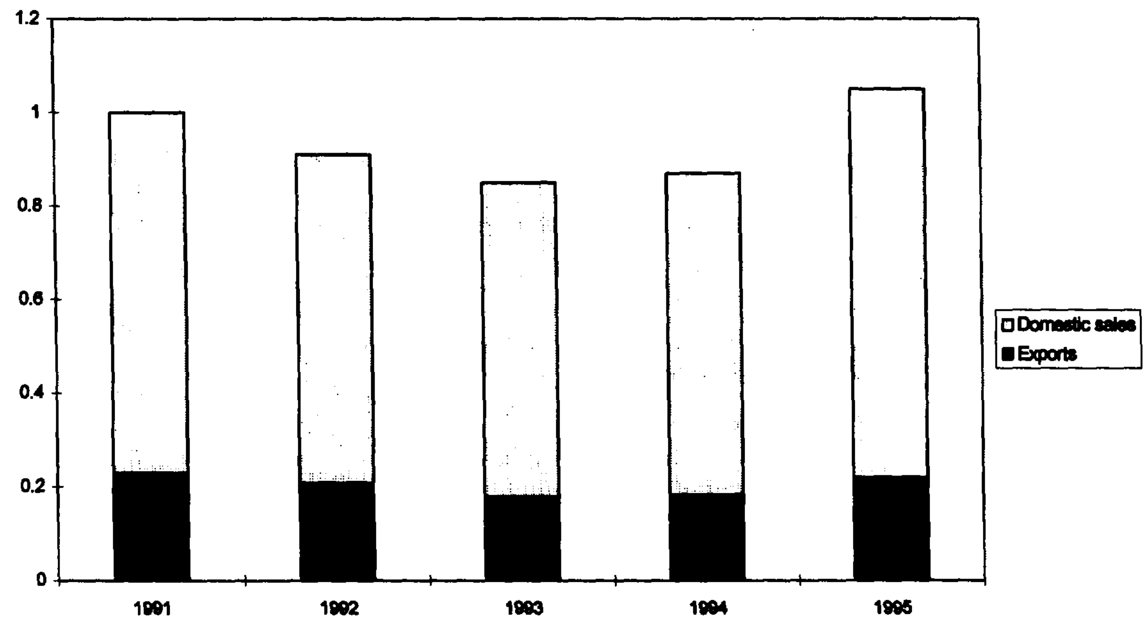
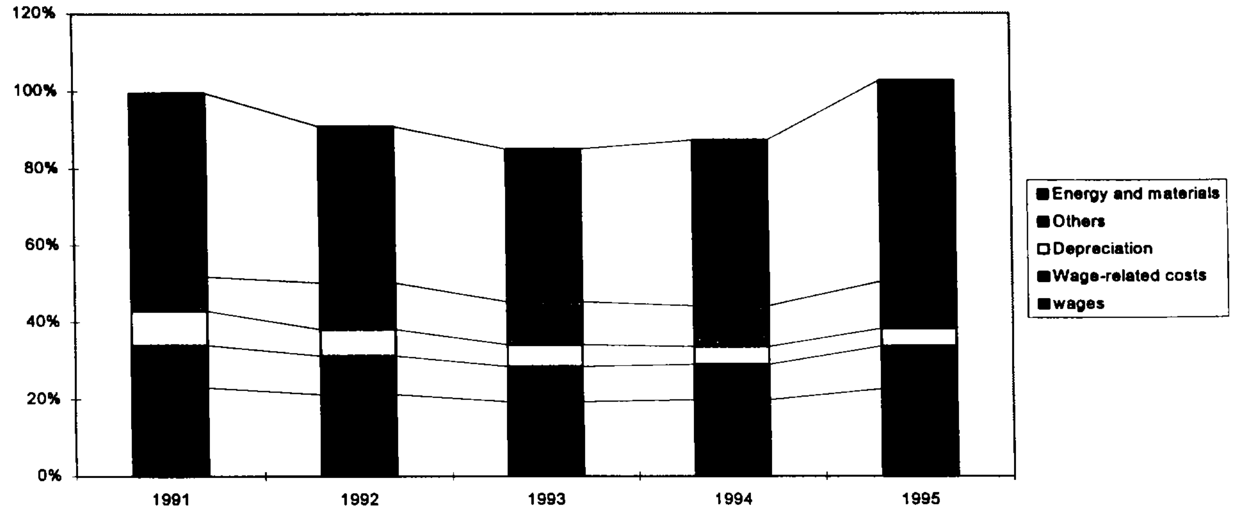


Figure 8: Operating Costs (in real terms, 54 firms)



Financial performance is only one measure of restructuring. Employment and wages is another. Our sample of 62 firms had been reducing employment about 10 percent per year on average from 1990 to 1993. In both 1994 and 1995 the layoff rate slowed to about one-half that level. The average wage rose roughly in line with inflation in 1994 and rose even faster -- by 18 percent in real terms -- in 1995. It had fallen by over 10 percent in real terms between 1991 and 1993. As seen in Figure 8, the wage bill and wage-related costs declined steadily from 1991 to 1993 but stayed level in 1994 and rose in 1995. These trends are difficult to interpret in the abstract. They could indicate that conciliation agreements provided "breathing room" that allowed firms to slow down painful restructuring. Alternatively, they could signal that staffing levels and wages had already been reduced sufficiently. The former is arguably the more likely explanation, given the weak operating profits of these firms in 1994 and 1995. With regard to other indicators, numerous firms reported some changes in the membership of management boards, some discontinuation of unprofitable products, and some sale or leasing of assets, but in no case did these indicators alter significantly in 1994 from what they had consistently been in 1992 and 1993. In sum, our data did not provide evidence of a significant change in either the methods or the rate of firm restructuring in 1994 as compared to earlier years, and financial performance in most firms in our sample appears to have stayed even or weakened rather than improved since the conciliation agreements were signed.

Conclusions

Poland has since 1992 been considered a model of commercial banking reform among transition countries. Its Enterprise and Bank Restructuring Program, adopted by parliament in early 1993, aimed to build institutional capacity in state-owned commercial banks and to take concrete steps to resolve their problem loans, through either workouts, liquidation processes, or loan sales. This paper has reviewed in detail the process and initial impact of Poland's bank-led workout ("conciliation") process in a sample of 62 enterprises (part of a larger sample we have studied of 139 firms following one of the five paths of loan resolution under the EBRP).

How effective has the conciliation process been? Although any assessment at this stage is still somewhat preliminary, experience to date suggests some outcomes. First, many aspects of the EBRP in general and the conciliation process in particular appear quite positive.[71] The reform program was clearly innovative and well-designed. In general banks and enterprises took it seriously, and it appears to have been free of fraud or corruption. Compliance with its prescriptions has been high but not perfect. For example, both the 1992 government stance and the 1993 law required that banks stop new lending (including rollovers of previous loans) to firms with debts already classified as either doubtful or loss in audits by international accounting firms. Yet about one-eighth of the firms in our sample appear to have received new loans or rollovers, contrary to these directives. The law also envisioned that enterprises would be "commercialized", that is, transformed into joint stock companies, as part of the conciliation process. Seventy-five percent of the firms in our sample were transformed, but the remainder were not.

The EBRP was clearly very useful as a catalyst in forcing otherwise passive creditors to take action against bad debtors. Although the debts in question turned bad in 1991, creditors took no action at all in over 80 percent of our 62 conciliation cases until the law was passed in early 1993. Even after the law was adopted, in over 60 percent of cases nothing happened until bank conciliation was initiated, on average 10 months afterwards. By then the debt had been in arrears well over two years. The signing dates of most agreements cluster closely around March, 1994, the original deadline under the law.

Not only was the law an important catalyst, but the process was reasonably rapid once begun. On average the conciliation process took between six and seven months from the date it was initiated until the date it finally took effect. Creditors reached agreement on restructuring plans quite quickly—in about four months on average. After agreement was reached, it generally took somewhat longer than the law anticipated to actually take effect. But major slowdowns occurred only in cases of debt-equity swaps; for the 14 cases in which swaps had been completed by mid-1995, it took some 10 months on average for shares to be issued after swaps were agreed to, largely because of delays by the Ministry of Privatization in giving approval. For the other cases it took even longer.

Finally, the division of firms among resolution paths appears to have followed economic logic. Better off firms tended to enter conciliation, while weaker performers tended to go into bankruptcy or liquidation. Profitability was not all that mattered, however. Size also appears to have been important, with larger firms tending to enter conciliation regardless of profitability. This is not surprising; these firms are politically more difficult to close.

Despite these strengths, the data suggest that the conciliation process may have had

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[71] But large segments of the financial system, representing well over one-half of the total bad debts in the banking system, were not covered by the program and were in even worse shape.

limited power to promote needed restructuring in firms. The agreements themselves were relatively unsophisticated, perhaps one reason they could be concluded so rapidly. They dealt primarily with financial conditions—mostly large debt write-offs and renegotiation of payment dates—and included very few tangible requirements for operational or management change. Only weaker banks were willing to undertake significant debt-equity swaps; the stronger banks undertook very few. To the extent that restructuring plans were actually prepared for firms, they appear to have greatly overestimated future profitability, particularly when the weaker banks (the three banks to be consolidated with Pekao S.A.) were in the lead.

Given these features, it is perhaps not surprising that the agreements appear to have resulted in little restructuring to date. The first two years of the agreements' implementation saw a slowdown in the rate of layoffs from previous years, an increase in the average wage rate (after adjusting for inflation), and a decline in average operating profitability and cash flow. (Reported net profits soared, but this was because loan write-offs were booked as income.) The main impact of the conciliation process was probably to provide firms with "breathing room". The weak operating performance in 1994 and 1995 suggests that many firms continued to have problems and that financial discipline was perhaps still somewhat "soft". Indeed, the practice of firms booking write-offs as profit may have given a misleading impression of higher post-conciliation profitability—and may possibly lead to further pressure for wage increases or more debt forgiveness in the future.

Debt-equity swaps were not used as widely as originally hoped, and the conciliation process did not lead to extensive ownership change. Of the 62 state-owned enterprises in our sample, majority stakes in *at most* one-fifth will eventually be in private hands as a result of the process, if the banks themselves are privatized. The fact that most debt-equity swaps were concluded by the weaker banks (i.e. those last to be privatized)—and that the equity also went proportionately to other, often passive, creditors (including government)—heightens the concern that it may be a long time before these swaps translate into effective private ownership and governance.

Initial evidence therefore suggests that the outcome of Poland's first experiment with bank-led workouts is decidedly mixed. The conciliation process forced banks to confront their problems, helped them build institutional capacity in their workout units (though not necessarily in their credit units), and furthered the difficult task of weeding out and closing clearly unviable firms. Loans could be written down without creating an environment of general debt forgiveness. These are important achievements in transition, and the Polish approach serves in many ways as a model for other transition economies. The process does not, however, seem to have rapidly imposed strong restructuring mandates on problem debtors, and its success in privatizing them has been limited. The EBRP was a good start, but continued work is needed to build strong banks that can impose effective corporate governance on enterprises in times of financial distress.

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Annex 1: Data used for bank categorization

Underlying data:

	Category	Equity as a share of risk-weighted assets, 1993[72]	Change in equity as a share of risk-weighted assets 1991 to 1993	Bad loans as a share of loan portfolio 1991	Change in bad loans as a share of loan portfolio 1991 to 1993
Bank 1	weak	-1.2%	-14,0%	31%	+13%
Bank 2	weak	-4.4%	-3.2%	high	large increase
Bank 3	weak/adequate	-6.6%	+2.6%	60%	-38%
Bank 4	adequate/strong	8.5%	+5.1%	41%*	-4%*
Bank 5	strong	21.2%	+17.9%	41%	-13%
Bank 6	strong	strong	privatized	low	privatized
Bank 7	strong	6.6%	+8.3%	28%	-10%
Bank 8	strong	10%**	strongly positive	28%	-3%
Bank 9	strong	strong	privatized	17%	privatized

* Data not available for 1991; 1992 data used instead.

**Data not available for 1993; 1992 data used instead

Rankings:

	Category	Equity as a share of risk-weighted assets, 1993[73]	Change in equity as a share of risk-weighted assets 1991 to 1993[74]	Bad loans as a share of loan portfolio 1991[75]	Change in bad loans as a share of loan portfolio 1991 to 1993[76]	Total
Bank 1	weak	1	1	2	1	5
Bank 2	weak	1	1	1	1	4
Bank 3	weak/ adequate	1	2	1	3	7
Bank 4	adequate/ strong	3	3	1	2	9
Bank 5	strong	3	3	1	3	10
Bank 6	strong	3	3	3	3	12
Bank 7	strong	3	3	2	3	11
Bank 8	strong	3	3	2	2	10
Bank 9	strong	3	3	3	3	12

72 Excluding recapitalization bonds received at the end of 1993.

73 Negative = 1; Positive up to 10% = 2; Positive of 10% or more = 3.

74 Decrease = 1; Increase up to 5% = 2; Increase above 5% = 3.

75 Over 40% = 1; 20-40% = 2; Below 20% = 3.

76 Increase = 1; Decrease up to 10% = 2; Decrease of 10% or above = 3.

Annex 2: Logistic Regression Results

A logistic regression was run to test the significance of operating profitability and number of employees in explaining the resolution paths taken by the 139 firms in our sample. The coefficients and their chi-square values are indicated below. The positive coefficients for operating profit and number of employees for paths 1 and 2 indicate that firms with higher operating profits or more employees are clearly more likely to repay or enter bank conciliation than to "exit" via bankruptcy or state enterprise liquidation. The high chi-square values and low P-values confirm that these two variables are highly significant. The chi-square and P values for path 3 are lower, indicating that there is not a highly significant difference between the firms that enter court conciliation and those that exit. (The coefficient for operating profit has a P-value just over 10 percent, however, making it marginally significant.)

Resolution Path:Values *relative* to bankruptcy/liquidation (chi-square, P-values in parentheses)			
	1: Repayment/ good clients (relative to 1)	2: Bank conciliation (relative to 1)	3: Court conciliation (relative to 1)
Intercept	-.77* (2.86, .091)	.05 (.02, .895)	-1.49** (6.08, .014)
Operating profit (EBIT)	5.75** (10.81, .001)	6.33** (19.83, .000)	2.95 (2.70, .101)
Number of employees 1992	.001* (3.72, .054)	.001** (6.55, .011)	.001 (1.20, .273)

* P-value less than 10 percent.

**P-value less than 2 percent.

ANNEX 3:

BANK CONCILIATION PROCEDURE: CONTENTS OF AGREEMENT

	WEAK BANKS					STRONG BANKS					ALL BANKS				
	Mean	S.D.	Max.	Min.	Number	Mean	S.D.	Max.	Min.	Number	Mean	S.D.	Max.	Min.	Number
	as a % of total amount in conciliation				of cases	as a % of total amount in conciliation				of cases	as a % of total amount in conciliation				of cases
Write-off (principal and interest)															
Large Creditors	53%	21	89%	11%	25	55%	19	82%	11%	28	54%	20	89%	11%	53
Small Creditors	5%	8	38%	0%	25	4%	8	38%	0%	28	4%	8	38%	0%	53
One category only	80%	0	80%	80%	1	65%	25	82%	6%	8	66%	24	82%	6%	9
Immediate partial repayment to															
Large Creditors		in no case			8		in no case			28		in no case			44
Small Creditors	1%	1.15	2%	0%	2 of 25	0.50%	0.80	2.00%	0.04%	4 out of 28	0.61%	0.82	1.69%	0.02%	6 of 53
One category only		in no case					in no case					in no case			
Maturity of debt; time between date conciliation agreement took effect and:	Mean	S.D.	Max.	Min.	Number	Mean	S.D.	Max.	Min.	Number	Mean	S.D.	Max.	Min.	Number
		in days			of cases		in days			of cases		in days			of cases
(for Large Creditors) First payment due	276	176	631	29	18	190	125	379	13	25	205	161	502	-193	41
Last payment due	1052	395	1760	61	18	1218	269	1908	827	25	1099	317	1908	61	40
(for Small Creditors) First payment due	166	108	410	2	25	66	56	186	-63	26	107	105	410	-193	48
Last payment due	447	325	1096	77	25	253	365	1291	0	27	348	353	1291	13	48
(One category only) First payment due	446	0	446	446	1	153	102	317	2	6	203	142	446	2	7
Last payment due	1177	0	1177	1177	1	1295	232	1738	1136	6	1286	211	1738	1144	7
	Mean	S.D.	Max.	Min.	Number	Mean	S.D.	Max.	Min.	Number	Mean	S.D.	Max.	Min.	Number
	as a % of total amount in conciliation				of cases	as a % of total amount in conciliation				of cases	as a % of total amount in conciliation				of cases
Conversion of debt to equity															
Large Creditors	30%	16.64	66%	9%	18	38%	21	56%	1.3%	6	32%	17.4	66%	1.3%	24
Small Creditors		in no case					in no case					in no case			
One category only		in no case				37%	0	37%	37%	1	37%	0	37%	37%	1
New equity	0.1%	0.00	0.1%	0.1%	1	11%	0	11%	11%	1	6%	7.5	11%	1%	2
New credit from bank	9%	8.66	30%	2%	9	10%	8.8	22%	3%	10	10%	8.8	30%	2%	19 of 54
<u>Conditions</u> Credit only from lead bank	7 of 10 that describe conditions			6 of 9 that got credit		0 of 10 that describe conditions			0 of 10 that got credit		7 of 20 that describe conditions			6 of 19 that got credit	
Satisfy fin. health test	5 of 10 that describe conditions			4 of 9 that got credit		3 of 10 that describe conditions			3 of 10 that got credit		8 of 20 that describe conditions			7 of 19 that got credit	
Lead bank has the right of 1st refusal	1 of 10 that describe conditions			0 of 9 that got credit		0 of 10 that describe conditions			0 of 10 that got credit		1 of 20 that describe conditions			0 of 19 that got credit	
Other conditions	1 of 10 that describe conditions			1 of 9 that got credit		8 of 10 that describe conditions			8 of 10 that got credit		9 of 22 that describe conditions			9 of 19 that got credit	

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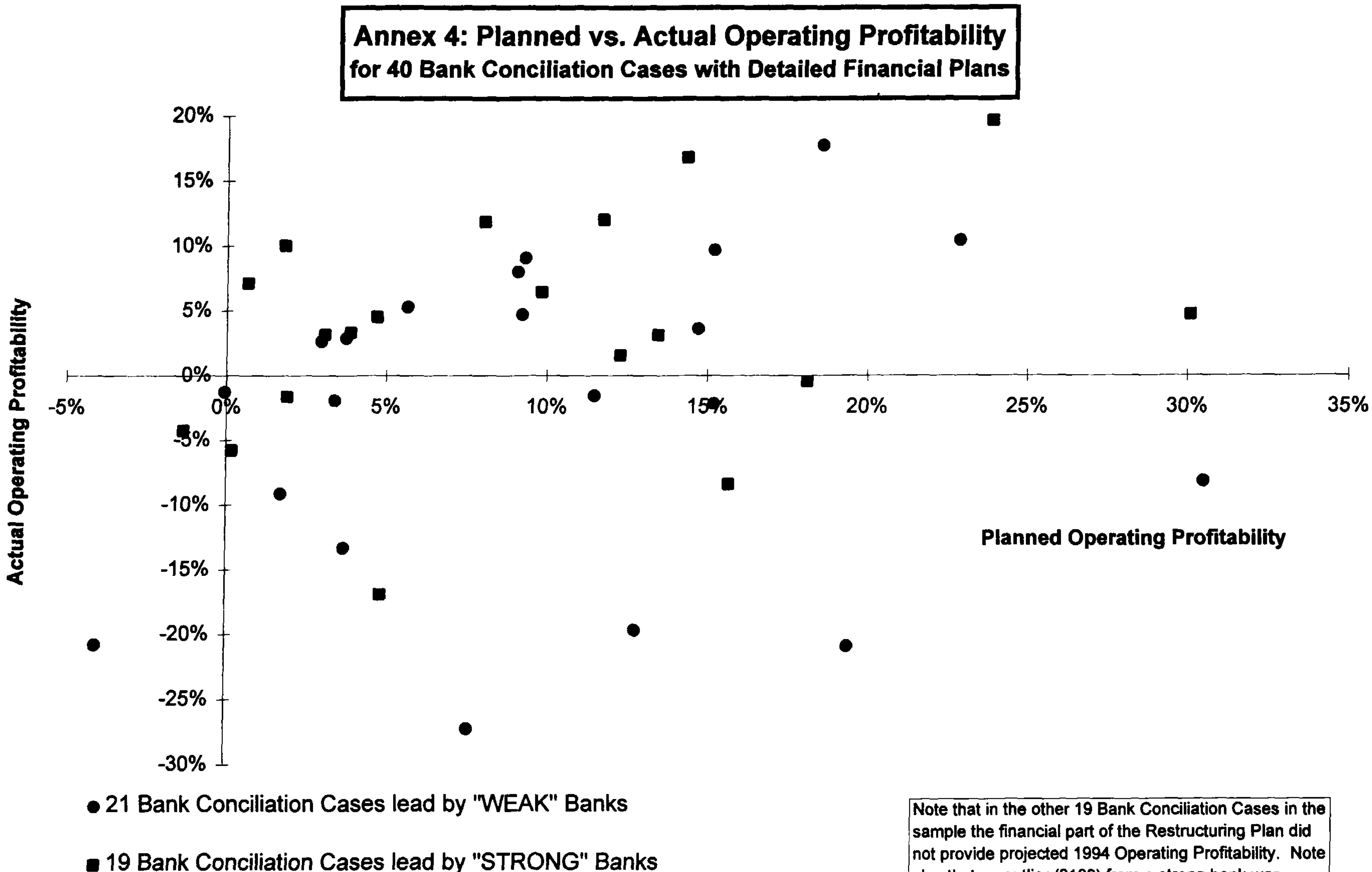

Note that in the other 19 Bank Conciliation Cases in the sample the financial part of the Restructuring Plan did not provide projected 1994 Operating Profitability. Note also that an outlier (2108) from a strong bank was removed: Planned operating profitability: -13%, actual operating profitability +9%.

FIG-OPER.XLS, Chart 5

Annex 5 Poland: Location of 62 Firms

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